Historic, archived document

Do not assume content reflects current scientific knowledge, policies, or practices.

A280.39
M34Amw
Cop. 3

MARKETING SPREADS FOR EGGS AND FRYING CHICKENS IN THE UNITED STATES AND SELECTED CITIES

U. S. DEPT. OF AGRICULTURE
LIBRARY
MAR 30 1961
CURRENT SERIAL RECORDS

Reprinted From
The Marketing and Transportation Situation
January 1961

U. S. DEPARTMENT OF AGRICULTURE
Agricultural Marketing Service
Marketing Economics Research Division

AMS-296 (1961)

Growth Through Agricultural Progress

MARKETING SPREADS FOR EGGS AND FRYING CHICKENS IN THE UNITED STATES AND SELECTED CITIES 1/

Farm-retail spreads in the United States decreased 4 percent for eggs and about 3 percent for frying chickens from 1959 to 1960. Prices paid by urban consumers for both eggs and frying chickens increased, but farm values for both commodities also increased and by larger amounts. Because of the bigger increases in farm values, farm shares of the retail dollars spent for eggs and frying chickens in 1960 were higher than in 1959. This article describes recent changes in prices and price spreads for eggs and frying chickens in the United States and in 10 selected cities.

Eggs

Prices of eggs sold to consumers by retail stores in urban communities in the United States averaged nearly 8 percent higher in 1960 than in 1959, but farm values increased by more than 14 percent (table 7). 2/ The resulting farm-retail spreads declined 0.8 cent a dozen in 1960. The farm share of the retail price was 4 percentage points higher in 1960, due largely to the bigger increase in farm values.

Increases in egg prices in 1960 were caused largely by reduced supplies. The average of weekly volumes of eggs moved into commercial channels during 1960 was lower than in 1959. 3/ Per capita egg consumption continued a downward trend in 1960, and was the lowest recorded since 1942. 4/ There were fewer laying hens on farms during the year, and total egg production was lower, despite a higher average rate of lay per bird than in 1959.

Marketing Spreads for Grade A Large Eggs in 10 Large Cities 5/

Farm-retail spreads on Grade A large eggs in 10 major cities in the United States averaged 23.4 cents a dozen in 1960--a decrease of 1.1 cents from 1959 (table 8). 6/ This reduction resulted from decreases in the retail store and receiver-retailer spreads, which were partly offset by an increase in the farm-receiver spread (fig. 3). 7/ Ten-city averages of prices at all market levels increased from 1959 to 1960.

1/ Prepared by Leo R. Gray, agricultural economist, and William L. Mitchell, agricultural marketing specialist, Marketing Economics Research Division, Agricultural Marketing Service.

2/ The farm value is the average payment received by producers for 1.03 dozen eggs.

3/ The definition of commercial egg assemblers used in the "Commercial Egg Movement Report" includes all firms that receive eggs from producers and that handle 400 or more cases of eggs per week from all sources. This report is published weekly by the USDA Dairy and Poultry Market News Branch.

4/ The Poultry and Egg Situation, PES-210, November 1960.

5/ This section is based partly on information from a study of monthly price spreads for eggs and poultry in selected large cities. Data were compiled from reports of the Bureau of Labor Statistics, the USDA Dairy and Poultry Market News Branch, and private business firms. Previous reports of this study are contained in similar articles on eggs and poultry; see each January issue, beginning 1957, of The Marketing and Transportation Situation.

6/ The terms "price spreads" and "margins" are used interchangeably.

7/ Data in figure 3 are for all of the 10 cities except Washington, D. C.

Table 7.--Eggs and frying chickens: Retail price, farm value, farm-retail spread, and farmer's share of the retail price, United States urban areas, annual 1950-60, by months January 1959-November 1960

Year and month	Eggs				Chickens (broilers and fryers, ready-to-cook)			
	Retail price per dozen 1/	Farm value 2/	Farm-retail spread	Farmer's share	Retail price per pound 1/	Farm value 3/	Farm-retail spread	Farmer's share
	Cents	Cents	Cents	Percent	Cents	Cents	Cents	Percent
1950	57.1	38.0	19.1	67	57.0	37.4	19.6	66
1951	69.7	49.4	20.3	71	59.7	39.0	20.7	65
1952	63.6	43.2	20.4	68	60.0	39.7	20.3	66
1953	66.8	49.0	17.8	73	58.5	37.0	21.5	63
1954	56.2	37.5	18.7	67	52.8	31.6	21.2	60
1955	58.1	40.1	18.0	69	54.8	34.6	20.2	63
1956	57.7	39.8	17.9	69	47.8	26.9	20.9	56
1957	54.9	36.6	18.3	67	46.7	25.9	20.8	55
1958	57.9	39.5	18.4	68	46.1	25.4	20.7	55
1959 4/	50.8	32.1	18.7	63	42.0	22.0	20.0	52
1960 5/	54.7	36.8	17.9	67	42.7	23.3	19.4	55
1959 4/								
January	56.4	37.8	18.6	67	42.9	23.3	19.6	54
February	54.7	37.0	17.7	68	43.5	23.0	20.5	53
March	53.0	35.2	17.8	66	43.6	23.2	20.4	53
April	46.6	29.1	17.5	62	42.7	22.3	20.4	52
May	43.7	26.0	17.7	59	42.1	21.6	20.5	51
June	42.4	26.0	16.4	61	41.4	21.6	19.8	52
July	50.4	31.3	19.1	62	42.4	22.1	20.3	52
August	51.0	32.0	19.0	63	41.5	21.4	20.1	52
September	54.8	34.0	20.8	62	41.7	21.1	20.6	51
October	53.3	32.8	20.5	62	40.6	20.4	20.2	50
November	52.1	32.4	19.7	62	40.8	20.3	20.5	50
December	51.1	31.9	19.2	62	40.9	23.8	17.1	58
1960								
January	49.6	30.5	19.1	61	42.5	23.4	19.1	55
February	47.2	29.8	17.4	63	43.2	24.2	19.0	56
March	48.5	33.3	15.2	69	44.2	24.8	19.4	56
April	54.1	37.1	17.0	69	44.0	24.2	19.8	55
May	51.3	33.7	17.6	66	43.1	24.4	18.7	57
June	49.4	32.1	17.3	65	42.7	24.1	18.6	56
July	49.5	32.4	17.1	65	43.8	24.5	19.3	56
August	52.8	35.2	17.6	67	43.0	22.7	20.3	53
September	59.2	39.8	19.4	67	42.2	22.1	20.1	52
October	65.7	44.7	21.0	68	41.0	21.9	19.1	53
November	65.1	47.0	18.1	72	41.4	21.6	19.8	52

1/ Estimated average prices of all eggs or frying chickens sold to consumers in retail stores in urban communities, based on prices collected by the Bur. of Labor Statistics. 2/ Average payments received by producers for 1.03 dozen eggs. 3/ Payment to producers for 1.37 pounds of live weight chicken, the equivalent of 1 pound ready-to-cook weight. 4/ Revised. 5/ Preliminary.

Table 8.--Eggs, Grade A or better quality, large and medium: Prices per dozen and price spreads at various market levels, 10-city average 1959 and 1960, selected cities 1960

Item	10-city average		Boston	New York	Baltimore	Washington D.C.
	1959	1960				
	Cents	Cents	Cents	Cents	Cents	Cents
Large:						
Prices:						
Retail	55.0	59.4	65.9	63.4	61.5	65.2
To retailers	44.9	50.2	53.7	50.6	53.6	53.2
To city receivers	35.5	41.3	45.4	41.8	41.5	44.1
Farm 1/	30.5	36.0	43.1	35.0	35.5	38.5
Spreads:						
Farm-retail	24.5	23.4	22.8	28.4	26.0	26.7
Retail store	10.1	9.2	12.2	12.8	7.9	12.0
Farm-retailer	14.4	14.2	10.6	15.6	18.1	14.7
Receiver-retailer	9.4	8.9	8.3	8.8	12.1	9.1
Farm-receiver	5.0	5.3	2.3	6.8	6.0	5.6
Medium:						
Prices:						
Retail	46.8	53.1	2/ 59.7	54.8	2/ 55.4	57.6
To retailers	38.0	45.0	47.9	44.1	48.4	47.3
To city receivers	29.2	36.2	39.8	36.4	36.1	38.3
Farm	24.4	30.3	37.5	28.5	28.6	31.3
Spreads:						
Farm-retail	22.4	22.8	22.2	26.3	26.8	26.3
Retail store	8.8	8.1	11.8	10.7	7.0	10.3
Farm-retailer	13.6	14.7	10.4	15.6	19.8	16.0
Receiver-retailer	8.8	8.8	8.1	7.7	12.3	9.0
Farm-receiver	4.8	5.9	2.3	7.9	7.5	7.0

	Atlanta	Cleveland	Chicago	St. Louis	San Francisco	Los Angeles
Large:						
Prices:						
Retail	56.7	59.9	55.1	55.7	54.7	55.8
To retailers	47.0	51.1	50.6	48.0	47.8	46.2
To city receivers	38.5	41.7	37.6	37.1	43.0	42.7
Farm 1/	34.0	33.3	31.4	34.8	34.9	39.8
Spreads:						
Farm-retail	22.7	26.6	23.7	20.9	19.8	16.0
Retail store	9.7	8.8	4.5	7.7	6.9	9.6
Farm-retailer	13.0	17.8	19.2	13.2	12.9	6.4
Receiver-retailer	8.5	9.4	13.0	10.9	4.8	3.5
Farm-receiver	4.5	8.4	6.2	2.3	8.1	2.9
Medium:						
Prices:						
Retail	52.0	52.8	48.1	50.8	49.5	49.9
To retailers	42.4	46.0	45.5	44.2	43.3	40.8
To city receivers	34.2	35.4	34.0	33.4	37.8	36.3
Farm	28.8	28.0	25.7	30.8	30.6	32.9
Spreads:						
Farm-retail	23.2	24.8	22.4	20.0	18.9	17.0
Retail store	9.6	6.8	2.6	6.6	6.2	9.1
Farm-retailer	13.6	18.0	19.8	13.4	12.7	7.9
Receiver-retailer	8.2	10.6	11.5	10.8	5.5	4.5
Farm-receiver	5.4	7.4	8.3	2.6	7.2	3.4

1/ Farm prices are weighted averages of prices reported in major commercial supply areas shipping eggs into the respective cities.

2/ Annual estimates based on data for fewer than 12 months.

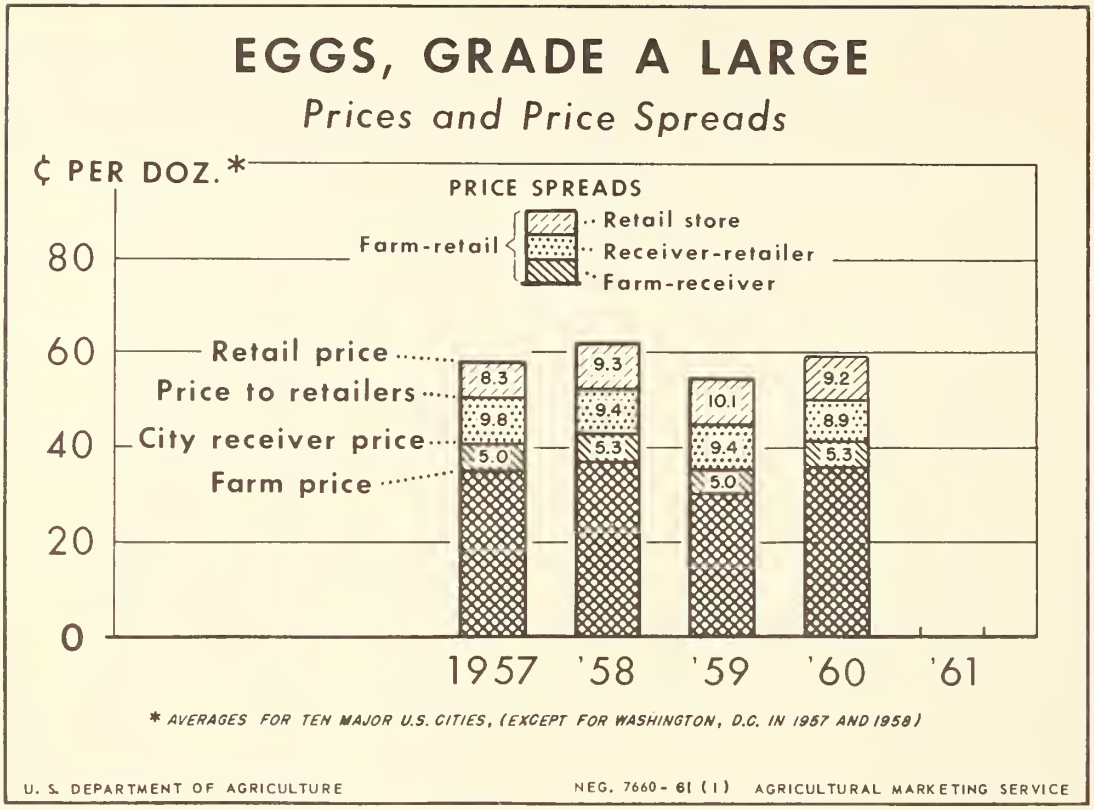

Figure 3

Farm-retail (gross) spreads decreased from 1959 to 1960 in all of the cities except Washington. In Washington, D. C., the spread increased 1.5 cents a dozen. The biggest decrease was in Los Angeles--4.2 cents a dozen.

Gross price spreads on Grade A large eggs marketed since July 1955, have continually been widest in New York and narrowest in Los Angeles. Generally, gross margins in the western cities, Los Angeles and San Francisco, have been among the narrowest, and those in the eastern cities, New York and Baltimore, have been among the widest. Relative standings of the other cities have varied. The lower margins in the two California cities may have been due partly to generally more direct marketing channels. A study of price spreads on eggs in Trenton, N. J., showed that gross margins in that medium-size city were lower than those in New York and Baltimore, but higher than in Los Angeles and San Francisco. 8/

A recent report on the Los Angeles egg market concludes that even though the organization of this market encourages efficiency in marketing operations, opportunities are available for further cost reductions. 9/ The report discusses broad phases of the market, including pricing techniques at various market levels.

Retail Store Spreads.--Retail store spreads narrowed from 1959 to 1960 in all of the cities except Boston and Baltimore. The biggest increase from 1959 to 1960--0.6 cent a dozen--occurred in Boston; San

8/ Gray, Leo R., Price Spreads, Costs, and Marketing Channels for Eggs and Poultry Sold in Trenton, N. J., U. S. Dept. of Agr., Mktg. Res. Rpt. 434, October 1960.

9/ Pritchard, Norris T., The Los Angeles Egg Market, U. S. Dept. of Agr., Mktg. Res. Rpt. 440, October 1960.

Francisco had the greatest decrease--3.0 cents a dozen. New York City continued to have the widest and Chicago the narrowest retail store spread of the 10 cities (table 8). Retail margins for Chicago have narrowed since 1958.

Farm-Retailer Spreads.--The 10-city average of spreads between prices paid by retailers and prices received by farmers (the farm-retailer spread) declined again in 1960. Farm-retailer spreads among the 10 cities in 1960 were widest in Chicago and continued to be narrowest in Los Angeles. A decrease of 1.7 cents a dozen from a year ago in farm-retailer spreads accounted for 40 percent of the drop in farm-retail spreads in Los Angeles.

Data indicate that cities mainly supplied with eggs from nearby producing areas (sometimes referred to as egg sheds) and with generally more direct systems of marketing to retail stores tend to have comparatively narrow farm-retailer price spreads. For example, Los Angeles, Boston, and San Francisco generally have had the narrowest farm-retailer spreads of the 10 cities since 1958. These 3 cities receive nearly all of their eggs from nearby sources in contrast to the other 7 cities. 10/ Furthermore, farm-retailer spreads in Atlanta have declined about 3.0 cents a dozen in the last 5 years, as the increase in nearby egg production has brought Georgia into a surplus position.

Cities for which a large proportion of the supply originates in distant areas, including the traditional midwestern "egg basket" States, have comparatively wide farm-retailer spreads. The wide spread for New York, for example, is based upon weighted averages of prices reported for nearby and midwestern eggs. Margins for nearby eggs marketed in New York were lower than the margins for the other 10 cities except Los Angeles; but margins for midwestern eggs in New York were higher than those in the other cities.

Marketing Spreads for Medium Eggs

The 10-city average of farm-retail spreads for Grade A medium eggs in 1960 was 22.8 cents a dozen, 0.4 cent more than in 1959, and 0.6 cent less than for Grade A large eggs in 1960 (table 8). Intercity differences in prices and price spreads for medium eggs were similar to those for large eggs.

Frying Chickens

Annual average farm-retail spreads for ready-to-cook frying chickens in the United States continued a downward trend by decreasing 0.6 cent a pound from 1959 to 1960 (table 7). Retail prices increased about 2 percent and farm values increased about 6 percent. Because of the bigger increase in farm values, the farm share of the retail dollar spent for frying chickens in 1960 was about 3 percentage points higher than a year ago.

Prices for fryers rose in 1960 even though supplies were larger than in 1959. The average weekly slaughter of young chickens increased about 5 percent from 1959 to 1960. Broiler chick output of commercial hatcheries and average number of chicks placed weekly in 22 States were also higher in 1960 than in 1959. Increased exports and increase in prices of competing meats contributed to the increased demand for broilers.

Retailers sometimes have featured frying chickens as loss leaders at prices of 29 cents a pound or less. A recent study in Maine supermarkets attempted to measure the effects of advertised price specials during weeks when fryers were featured as low-margin or as below-cost sales items. It was reported that these promotion techniques had no significant effects on store traffic and total store dollar sales. There

10/ Monthly Origin of Receipts for Shell Eggs in Selected Cities, U. S. Dept. of Agr., Supplement for 1958 and 1959 to Stat. Bul. 249, December 1960.

Table 9.--Frying chickens: Prices per pound (ready-to-cook basis) and price spreads at various market levels, 10-city average 1959 and 1960 and selected cities, 1960

Item	10-city average		Boston
	1959	1960	
	Cents	Cents	Cents
Prices:			
Retail	41.2	42.3	43.9
To retailers	30.8	32.5	31.3
To city receivers	--	29.4	30.3
Farm 1/	22.1	23.4	24.5
Spreads:			
Farm-retail	19.1	18.9	19.4
Retail store	10.4	9.8	12.6
Farm-retailer	8.7	9.1	6.8
Receiver-retailer	--	3.1	1.0
Farm-receiver	--	6.0	5.8

	New York	Baltimore	Washington, D.C.
Prices:			
Retail	42.9	41.4	39.1
To retailers	32.3	32.7	31.3
To city receivers	29.1	30.0	29.1
Farm 1/	24.2	24.4	23.2
Spreads:			
Farm-retail	18.7	17.0	15.9
Retail store	10.6	8.7	7.8
Farm-retailer	8.1	8.3	8.1
Receiver-retailer	3.2	2.7	2.2
Farm-receiver	4.9	5.6	5.9

	Atlanta	Cleveland	Chicago
Prices:			
Retail	39.8	40.2	39.1
To retailers	30.4	31.0	32.3
To city receiver	28.3	29.3	28.6
Farm 1/	22.6	23.2	22.9
Spreads:			
Farm-retail	17.2	17.0	16.2
Retail store	9.4	9.2	6.8
Farm-retailer	7.8	7.8	9.4
Receiver-retailer	2.1	1.7	3.7
Farm-receiver	5.7	6.1	5.7

	St. Louis	San Francisco	Los Angeles
Prices:			
Retail	38.6	49.6	48.3
To retailers	31.4	36.1	36.4
To city receivers	28.5	31.0	30.0
Farm 1/	22.6	24.0	22.5
Spreads:			
Farm-retail	16.0	25.6	25.8
Retail store	7.2	13.5	11.9
Farm-retailer	8.8	12.1	13.9
Receiver-retailer	2.9	5.1	6.4
Farm-receiver	5.9	7.0	7.5

1/ Farm values are weighted averages of prices reported in major commercial supply areas shipping frying chickens into the respective cities.

were, however, sizable variations in pounds of fryers sold during nonsale, below-cost-sale, and post sales weeks; thus indicating a highly elastic short-run demand for frying chickens. 11/ Another recent study points out that each 10 percent change in price was accompanied by a 25 to 35 percent inverse change in retail sales when advertising was used in addition to a price change, but when advertising was not used sales changed 18 percent. 12/

Marketing Spreads for Fryers in 10 Large Cities

Farm-retail spreads on frying chickens in 10 major cities in the United States averaged 18.9 cents a pound in 1960--a decrease of 0.2 cent from 1959 (table 9). This decline was due to lower retail store spreads which averaged about 6 percent less than in 1959 (fig. 4). Average prices, however, were higher than in 1959 at all market levels in all cities. Farm-retail price spreads decreased in all cities, but some had increases in the farm-retailer component.

Retail Store Spreads.--Retail store spreads in 1960 averaged 0.6 cent less than in 1959 for the 10 cities. These spreads generally have declined in the 10 cities since 1958. Chicago had the narrowest and San Francisco the widest retail store spreads in 1960. The biggest change from 1959 to 1960 occurred in Los Angeles, where the retail store spread dropped 1.9 cents a pound. Retail store spreads in San Francisco in 1960 were 9.9 cents a pound less, or nearly half what they were in 1956, the first year for which a full year's data were available.

Farm-Retailer Spreads.--Farm-retailer spreads averaged 0.4 cent a pound more in 1960 than in 1959 for the 10 cities. The biggest increase occurred in San Francisco (1.2 cents a pound), while the greatest decrease was in Atlanta (0.3 cent). Farm-retailer spreads in 1960 were the same as or greater than in 1959 in all cities except Atlanta and Cleveland.

Farm-receiver spreads, which comprised about two-thirds of the average farm-retailer spread for the 10 cities, were about the same in 1960 as in 1959 (table 9). They were highest for Los Angeles and San Francisco. Farm-receiver spreads include markups taken by poultry processors and transportation firms involved in the marketing channels, but they may differ from marketing costs in some months; for example, the Trenton study indicated price spreads taken by processors in June 1958 were below their operating costs. 13/

Receiver-retailer spreads (wholesaler's margins) reflect differences between prices paid by retail stores and prices paid by first receivers in the city. They were slightly higher in 1960 than in 1959.

11/ Saunders, Richard, and Stoddard, Everett II. Effects of Fryer Specials on Supermarket Sales and Profits, Maine Agr. Expt. Sta., Orono, Maine, Misc. Pub. 643, September 1960.

12/ Nordhauser, F., and Farris, P. L. (Purdue University) "Low Prices Increase Total Dollars Spent for Fryers," Poultry Processing and Marketing. (Watt Publishing Co.), October 1960, p. 28.

13/ See publication cited in footnote 8.

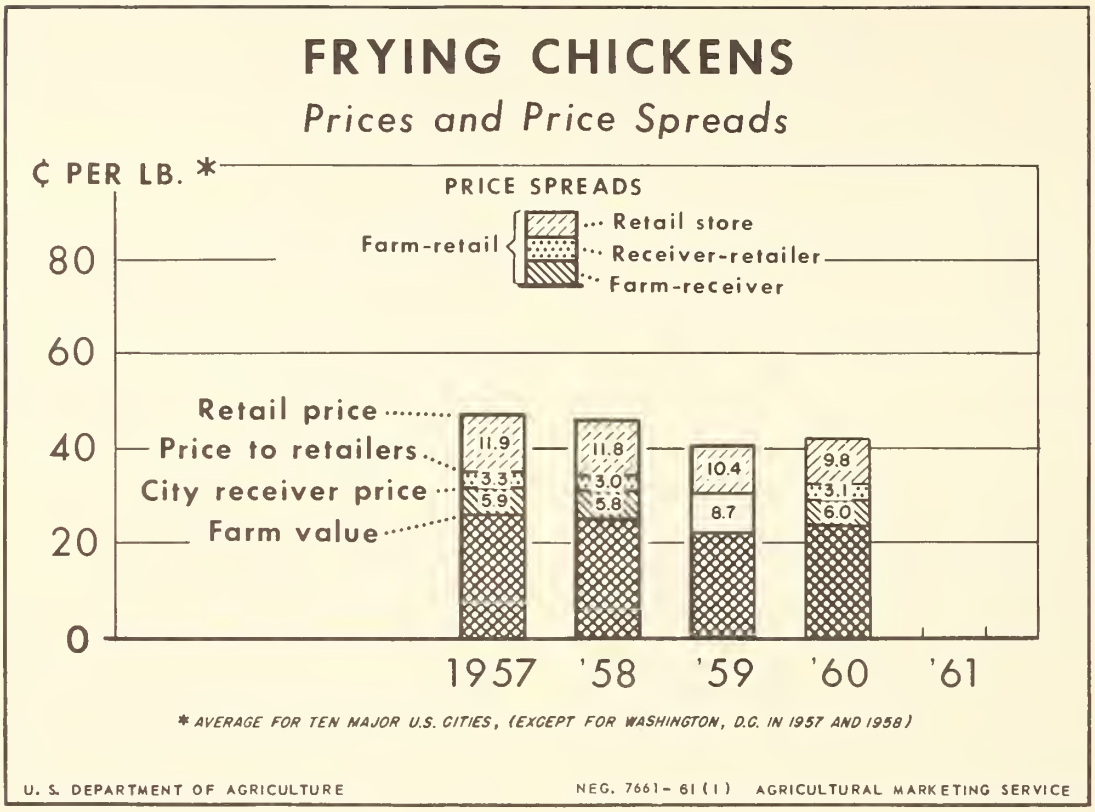
FRYING CHICKENS
Prices and Price Spreads
¢ PER LB. *
PRICE SPREADS
Farm-retail
Retail store
Receiver-retailer
Farm-receiver
80
60
40
20
0
Retail price
Price to retailers
City receiver price
Farm value
11.9
3.3
5.9
11.8
3.0
5.8
10.4
8.7
9.8
3.1
6.0
1957
'58
'59
'60
'61
* AVERAGE FOR TEN MAJOR U.S. CITIES, (EXCEPT FOR WASHINGTON, D.C. IN 1957 AND 1958)
U. S. DEPARTMENT OF AGRICULTURE
NEG. 7661-61(1) AGRICULTURAL MARKETING SERVICE

Figure 4